

VERMONT AGENCY OF NATURAL RESOURCES & AGENCY OF TRANSPORTATION

Cap-and-Invest Study: Environment and Community Focus Group

November 21, 2024

MEETING SUMMARY

Project Team (10)	Attendees (24)
Andrea Wright (Agency of Transportation)	Andrés Oyaga – 350VT Community Organizer
Brian Woods (Agency of Natural Resources)	Ann Janda – Chittenden County Regional Planning Commission Energy Project Manager
Jane Lazorchak (Agency of Natural Resources)	Cara Robechek – Energy Action Network
Patrick Murphy (Agency of Transportation)	Catherine Lange – Vermont Housing Finance Agency
Sophi Veltrop (Agency of Natural Resources)	Christine Donovan – Energy Action Network
Ashlynn Doyon (Vermont State Treasurer's Office)	Dave Roberts – Vermont Energy Investment Corporation
Chris Porter (Cambridge Systematics)	Deb Sachs – Net Zero Vermont
Jim Redeker (FHI Studio)	Gina Campoli – Vermont Climate Council Cross-Sector Mitigation subcommittee member (<i>retired from Agency of Transportation</i>)
Leah Beckett (FHI Studio)	John Haffner – Vital Communities
Sebastian Dominguez (FHI Studio)	Karl Kemnitzer – Sierra Club
Cassandra Valcourt (FHI Studio)	Kati Gallagher – Vermont Natural Resources Council
	Leigh Martin – Vermont Department of Environmental Conservation
	Lena Stier – Energy Action Network
	Linda McGinnis – Energy Action Network
	Melissa Bailey – Public Service Department; Vermont Climate Council Cross-Sector Mitigation subcommittee co-chair
	Peggy O'Neill-Vivanco – Vermont Clean Cities/University of Vermont Transportation Research Center
	Rep Amy Sheldon – Vermont General Assembly
	Sophia Donforth – Vermont Energy Education Program
	Thomas Hughes – Vermont Public Interest Research Group
	Virginie Diambou – Champlain Valley Office of Economic Opportunity

	Sam Lash – Central Vermont Regional Planning Commission, Vermont Climate Council Just Transitions Subcommittee member*
	Jared Duval – Energy Action Network, Vermont Climate Council*
	Johanna Miller – Vermont Natural Resources Council, Vermont Climate Council*

**Technical Advisory Committee member*

Presentation Summary

Jane Lazorchak, from the Vermont Agency of Natural Resources (ANR), and Andrea Wright, from the Vermont Agency of Transportation (AOT), welcomed attendees to the virtual Environment and Community Focus Group on November 21, 2024. The focus of the meeting was Vermont’s consideration of a cap-and-invest program. J. Lazorchak and A. Wright thanked participants for joining the public session.

Jim Redeker of FHI Studio outlined instructions for participating in the meeting, after which A. Wright reviewed the agenda, which included the following items:

- Welcome
- What has Vermont done to plan for and address climate change?
- What is a cap-and-invest program?
- How can a cap-and-invest program help Vermont meet its climate goals?
- What are the potential benefits and impacts to Vermonters?
- Introduction to this climate policy study
- Discussion
- Stay Involved!

A. Wright emphasized that Vermont is conducting a study to evaluate the feasibility, potential benefits, and costs of joining a cap-and-invest program. She clarified that the state is not currently implementing such a program. She then introduced the study team.

J. Lazorchak, from Vermont’s Climate Action Office, provided an overview of the state’s progress in addressing climate change. She highlighted the Global Warming Solutions Act (GWSA), passed in 2020, which legally mandates emissions reductions and includes objectives related to land use, resilience, and adaptation. The GWSA established statutory climate pollution reduction targets:

- 26% below 2005 levels by January 1, 2025.
- 40% below 1990 levels by 2030.
- 80% below 1990 levels by 2050.

The GWSA also created the Vermont Climate Council, an independent body of eight state officials and 15 legislative appointees representing diverse sectors. The council drafted Vermont’s Climate Action Plan (CAP), first adopted in December 2021. While the CAP

included emissions reduction strategies, it acknowledged that the transportation sector required additional policies to meet statutory goals. The Transportation Carbon Reduction Strategy later identified that modest emissions reductions could be achieved by redirecting funds but recommended more robust policies, such as cap-and-invest.

Chris Porter, of Cambridge Systematics, introduced cap-and-invest programs:

- These programs establish an economy-wide, declining cap on emissions.
- The state distributes or sells "allowances" (rights to emit one metric ton of carbon dioxide equivalent).
- Companies can trade allowances, enabling emissions reductions to occur at the lowest cost.
- Proceeds from allowance auctions are reinvested into clean energy, energy efficiency, and other initiatives that benefit Vermonters while reducing emissions.

C. Porter explained that Vermont would focus on regulating fuel suppliers (e.g., distributors of gasoline, diesel, and natural gas) rather than directly regulating households or businesses. The study explores the feasibility of Vermont joining an existing cap-and-invest program, either:

1. The Western Climate Initiative (WCI): Includes California and Quebec, with Washington State joining in 2023.
2. New York State's developing program: Expected to launch by 2026.

He noted that Vermont is evaluating sectoral coverage, starting with the transportation sector and potentially including buildings (heating fuels) and industrial sources. Covering more sectors would increase cost-effective emissions reductions but provide less certainty for achieving reductions in specific sectors.

Projected Benefits of Cap-and-Invest Programs

- Reduction in climate pollution.
- Investments in energy efficiency, electrification, and multimodal transportation.
- Job creation in the clean energy sector.
- Improved public health through reduced emissions and increased physical activity.
- Enhanced business certainty with formalized emissions reduction timelines.

Potential Challenges

- Higher prices for fossil fuels (e.g., gasoline, diesel, natural gas).
- Potential border effects, such as consumers or businesses seeking cheaper options in neighboring states.
- Compliance burdens on regulated entities.

Strategies to Mitigate Impacts

C. Porter outlined several measures Vermont could adopt to reduce potential burdens:

- Introducing a price cap to prevent excessive allowance costs.
- Allocating proceeds to equity-focused programs, including rebates for low-income households and vulnerable businesses.
- Reinvesting proceeds to support fuel switching and energy efficiency.
- Providing free allowances to at-risk industries to prevent business relocation.

Preliminary Findings

The study indicates Vermont's ambitious 2030 emissions reduction targets may require high allowance prices and broad sector coverage. Key metrics being evaluated include:

- Potential emissions reductions under different price scenarios (\$10, \$30, \$60+ per ton).
- Auction revenue projections, ranging from \$25–\$250+ million annually, depending on sectoral coverage and allowance prices.
- Socioeconomic impacts, such as household cost savings, job changes, and health benefits.

C. Porter explained that a draft analysis will be completed by December 2024, with further public engagement planned for early 2025. The results will inform recommendations to the Vermont Legislature in 2025.

The study aims to provide actionable insights on cap-and-invest programs and their alignment with Vermont's statutory climate goals. The Climate Action Plan update, due in July 2025, will incorporate these findings to guide the state toward achieving its targets.

Facilitated Discussion

J. Redeker opened the facilitated discussion by asking how confident participants were in their understanding of cap-and-invest programs. He also asked if they had any questions about the material presented. Participant responses are anonymous.

Clarifying Questions and Answers

Proceeds Estimates

Q: Are the estimated proceeds from the cap-and-invest program annual figures?

A: C. Porter: The figures represent a snapshot for 2030. Proceeds will vary annually depending on the allowance price trajectory.

Sector Emissions Coverage

Q: Were the emissions reductions on the slides economy-wide or specific to the transportation sector?

A: C. Porter: The reductions reflected emissions across all modeled sectors: transportation, residential, commercial, and industrial.

Revenue Allocation Assumptions

Q: Do the emissions reductions scenarios assume that all revenue is reinvested in emissions-reducing activities? What assumptions were made about revenue allocation?

A: C. Porter: We assumed that a portion of revenue would be allocated to non-emission-reducing purposes, such as rebates and resilience funding. While not all funds are reinvested in emissions reductions, a significant portion is.

A: J. Lazorchak: The study models scenarios where proceeds are used for program administration, rebates to Vermonters, and investments in resilience and adaptation. For the deeper analysis, 50% of the revenue was assumed to be reinvested in emissions reductions.

Q: Can we look at 3 scenarios for using proceeds? It would be good to know the implications of different levels across a wide range of possible funding.

A: C. Porter: The project team will consider this suggestion.

Equity and Community Considerations

Q: How can the program ensure that revenues benefit low-income and environmental justice communities? I'm concerned about the potential for funds to be misallocated or fail to benefit the most impacted groups.

A: J. Lazorchak: The study includes scenarios where a portion of funds is targeted toward low-income households and vulnerable communities. Input from community-based organizations is critical to ensuring equitable outcomes.

Q: Many people in underserved communities lack awareness of environmental challenges and the need for behavior changes. How can these groups be included in the process?

A: J. Lazorchak: We aim to incorporate environmental justice perspectives through direct engagement with community organizations and ensure that equity considerations guide program design and resource allocation.

Q: How will rural residents who are "super-users" of fossil fuels, such as long-distance commuters, be supported in this transition?

A: A. Wright: Program recommendations will align with Vermont's Climate Action Plan, focusing on initiatives like low-interest loans for EV chargers and targeted incentives for rural residents.

Q: How can we make sure we're not accidentally targeting poor rural people, people who feel they've been left behind? What if we allocated some free allowances to them?

A: C. Porter: The study is considering how auction proceeds could be redistributed and/or reinvested in ways that support equity including across rural/urban and income levels.

Program Design and Communication Challenges

Q: Communication will be critical to the program's success. How can you ensure the public understands how cap-and-invest works and the associated benefits?

A: We need clear, jargon-free messaging that focuses on economic benefits and practical outcomes. Learning from other jurisdictions like California and Quebec will be crucial.

A: C. Porter: Study team agrees that clear communication and learning from other jurisdictions will be important to communicate the findings of the study.

Q: The high-price scenario could be politically contentious. How will you address concerns about potential price increases for fossil fuels?

A: J. Lazorchak: The study models various price scenarios and their impacts. Vermont will have flexibility in how to design and implement a program, including mechanisms to mitigate cost impacts on consumers.

Q: How will this study be different than other carbon pricing studies that have not gone anywhere?

A: J. Lazorchak: The Governor was concerned that there was not a technical study for the Clean Heat Standard before legislation was considered. The Secretaries of both ANR and AOT have supported a thoughtful cap-and-invest study.

Q: Can we be more transparent in charts/data about what % of revenue goes to emission reduction? E.g., could we achieve the same effect of 50% reinvestment @ \$60/ton with 100% @ \$30/ton?

A: C. Porter: The project team will consider this suggestion.

Specific Concerns

Q: How does this program align with Vermont's clean heat standard or other carbon pricing initiatives?

A: C. Porter: We're studying complementary policies, such as low-carbon fuel standards, and analyzing how cap-and-invest could fit into the broader framework without duplicating efforts.

Q: How will Vermont address concerns about fuel price disparities with neighboring states that don't participate in similar programs?

A: J. Lazorchak: The study considers leakage risks, particularly for heating fuels. Vermont's fuel supply chain (e.g., sourcing from New York and Quebec) will also be a factor in policy design.

Participants' Comments and Suggestions

- Vermont needs a consistent revenue source to support transportation initiatives, such as transit and multimodal infrastructure. Cap-and-invest can help move Vermonters off volatile fossil fuels.
- I fully support cap-and-invest. I recommend studying multiple scenarios for revenue allocation to understand the trade-offs between direct rebates and emissions-reduction investments.
- My organization strongly supports this initiative. Equity and inclusion must remain central to program design and implementation.
- The climate situation is very frustrating for our youth. They need more options, and we need money to generate those options. Pick actions with impact like this one.
- Communicate that the goal is to move people off of imported fossil fuels, in an equitable and cost-effective way. Paint a picture of economic implications of the current fuel market – no control over price fluctuations – we get more control over that with cleaner and more price-stable options.
- Be prepared to address how this relates to the Clean Heat Standard or not if we include the thermal sector.

Closing Remarks

J. Redeker thanked everyone for their input and encouraged participants to stay involved and share additional feedback as the State moves toward final recommendations. J. Lazorchak and A. Wright echoed his sentiments.